

	<p align="center"><b>Department of Administration</b></p> <p align="center"><b>Policy – External</b></p> <p align="center"><b>Risk Management &amp; Tort Defense Division</b></p> <p><b>Subject: Cost Allocation</b> – A summary of the insurance premium allocation process used in assessments for state agencies.</p> <p><b>This policy may be found in its entirety in the Risk Management Program Manual, Section XIV.</b></p>	<p><b>Number: FY01-06</b></p>
		<p><b>Effective Date: 8/98</b></p>
		<p><b>Approval: Final</b></p>

### **RISK MANAGEMENT COST ALLOCATION**

1. The State of Montana risk management cost allocation system was developed as a means of distributing the costs of insurance among state participants.

It is the philosophy of the Risk Management and Tort Defense Division that each state participant should bear a proportionate share of liability commensurate with their loss experience and exposure. The Risk Management and Tort Defense Division incurs significant expense in the investigation, defense, and settlement of claims and lawsuits. Those participants with higher losses will pay higher insurance premiums. Risk management and insurance costs will be allocated on the basis of each participant's loss experience and exposure.

The rationale behind cost allocation is that of sharing the risk so that no one participant is expected to bear the burden of paying total costs of unexpected losses from their authorized budgets.

2. At present, Risk Management and Tort Defense allocates the losses associated with insurable exposures as follows:

- a. **Property Premium Allocation** - The commercial property premium allocated to each participant is based on the participant's buildings and content replacement values (see Source Data Reporting).

The deductible assessment for each participant is based on the average dollar value of reported, retained, or uninsured losses under the deductible for present fiscal year to date and for the two prior fiscal years. The premium for each participant will be determined based on each participant's percentage of total premium for property insurance.

- b. **Boiler Premium Allocation** – The boiler premium allocated to each participant is based upon the number of boilers to be insured at a flat rate depending upon the overall boiler premium.
  - c. **Fine Arts Premium Allocation** – The fine arts premium is based upon the values of fine arts scheduled by location.
  - d. **Fidelity Bond Premium Allocation** – The fidelity bond premium is based upon the total premium charged by the commercial insurer divided by the number of boilers and the rate applied to the boilers owned by agency.
  - e. **Aircraft Premium Allocation** – The aircraft and airports premiums are based upon the total premium charged by the commercial insurer divided by the total values of aircraft and airports and the rate applied to the values by agency.
  - f. **Tort Liability Premium Allocation** - General and vehicle liability insurance premiums are allocated to participants based upon loss experience and exposure. The following factors are applied:
    - 1) Prior loss history (presently 3 years).
    - 2) Loss Propensity (Exposure) as measured by the number of FTEs and vehicles.
  - g. **Other Premium Allocation** - Premiums for all other commercially and self-insured exposures are allocated based on number and types of exposure units in accordance with the Source Data Reporting procedures as outlined in this manual.
3. The billable amount for each participant is included in the respective budget request for appropriation authority from the legislature (see Source Data & Billing sections of the Risk Management Program Binder).